



## MEMORANDUM

REGIONAL WATER DISTRICT

TO: Board of Directors

FROM: William A. Greenleaf, Director of Business Services *WAG*

DATE: March 22, 2018

SUBJECT: Auditors' Management Letter

Each year the Auditors submit a management letter with observations and recommendations for improving financial, administrative and operating matters. The District responds to these recommendations by taking steps to achieve the desired improvement. The following are some recommendations for improvement and other observations made by Deloitte during the FY 2017 Audit for the next fiscal year:

### **Observation**

#### *Entity Wide Risk Assessment – Training, Establishment, and Revision of Policies and Procedures*

The District's "Disbursement of Funds and Check Signing Policy" requires that "all checks, drafts and other instruments for expenditures of \$100,000 or more shall require two signatures, one of which must be an officer of the District; and countersigned by the Executive Director (or designee)." While the District has procedures in place for large disbursements, whether by check, draft or other instrument, and has implemented segregation of duties policies, including the separation of initiation from authorization of wires in the bank account system, electronic control procedures in the bank portal over wire transfers exceeding the dollar thresholds established by the District's policy are not in place to allow for the additional approval of the Executive Director or Board Officer on large disbursements made by wire transfers. Although the District executed a limited number of wires to a single vendor and the supporting documentation was approved for payment by the required approvers prior to the execution of the wire, the authorization of the wire transfers per District policy was not properly established or implemented.

Additionally, the District's internal control policies require that the District Business Department staff perform a monthly Accounts Payable reconciliation that is reviewed by an independent reviewer. For the last three months of fiscal year 2017, these reconciliations were not performed in a timely manner. It should be noted that weekly reconciliations were performed throughout the fiscal year by the Cash Coordinator, though not all of the relevant supporting documentation was retained. As of January 2018, monthly reconciliations are current.

## Recommendation

The District should have a process in place to ensure that policies and procedures such as timely reconciliations and authorizations are adhered to. In addition, the District's Fraud Risk Assessment and Procedures Manual should be revisited in detail to protect the District against the risk of fraud and error, as the environment and the risks of fraud are constantly changing and evolving. To ensure that internal controls reflect current resources and best practices, consider:

- Reviewing policies and procedures in place to address evolving risks, including a review of the Manual. Updates should be made immediately to address known weaknesses and updated manuals should be made accessible to all employees.
- Given that the District does not have an internal audit department that performs ongoing or continuous audit procedures on internal controls, consider engaging an outside party to perform testing of operating effectiveness of internal controls on a periodic basis to determine whether the identified controls properly mitigate the District's assessed risks to an acceptable level.
- Providing training on a routine basis to all employees on the risks of fraud as they apply to the District in a way that is made meaningful to the jobs and tasks that they regularly perform. Policies and procedures should be enforced as written.


## District Response

Staff concurs with Deloitte's assessment that there was a departure from the Policy mentioned by Deloitte in its finding. Although Staff followed the wiring process documented in the *Fraud Risk Assessment and Procedures Manual (FRAP)*, Staff will work to see that all related policies and processes involving both checks and wires will be made consistent and incorporate "Best Practice" controls to address the continual increasing and evolving threat of fraud.

In addition to ensuring the consistency of the checks and wiring policies and processes, Staff will perform the following in an additional effort to mitigate fraud:

- Update the FRAP along with other related policies and provide Q&A sessions regarding the FRAP to all interested District employees.
- Require training for all Accounting Team Staff on fraud and evolving fraud threats, especially **Cyber Fraud**.
- Provide specifically designed training sessions regarding the threat of cyber fraud for all District employees.
- Acquire outside consultation and work with related entities for processes to help secure the District's assets against fraud and improve cyber security.

In regards to the Accounts Payable (AP) reconciliation, Staff has determined that the weekly reconciliations that have been consistently performed in a timely manner (as verified by Deloitte) is a far more effective, real-time control than the monthly reconciliations that Deloitte noted as being late. Although Staff has always performed weekly reconciliations as a significant internal control for the AP process and has described nearly all of the aspects of this control in various areas of the FRAP, it has not been documented as the primary internal control in the FRAP. Staff will now retain the only piece of documentation that was missing (the "print-screen") and formally



document the weekly AP reconciliation as the primary control in the FRAP. A monthly/quarterly reconciliation will be performed periodically as a secondary internal control.

### **Observation**

The Governmental Accounting Standards Board (GASB) has issued a number of new accounting pronouncements become effective in future fiscal years. Such pronouncements should be evaluated by management to determine what impact, if any, they have on the District's financial statements upon implementation.

**GASB Statement No. 85, *Omnibus 2017***, was issued in March 2017 and addresses a variety of practice issues related to blended component units in business type-activity presentations, goodwill, fair value measurement and application, and pension and OPEB issues. This statement becomes effective in fiscal 2018.

**GASB Statement No. 86, *Certain Debt Extinguishment Issues***, was issued in May 2017 and addresses the accounting for in-substance defeasances of debt paid from existing resources. This standard clarifies that the accounting is essentially the same whether the proceeds from a refunding or existing resources are placed in a trust in an in-substance defeasance transaction. This statement is effective for fiscal 2018.

*(Note: District Staff has only listed the GASB pronouncements that may have an impact on the District's financial statements and will be implemented in FY 2018.)*

### **District Response**

Management and Staff concur. District Staff will continue to evaluate the impact of these pronouncements prior to the FY 2018 Audit.

